

Message Text

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INFO OCT-01 ISO-00 EB-08 COME-00 OPIC-03 DOTE-00
CIAE-00 DODE-00 INR-10 NSAE-00 PA-01 ICA-11 SP-02
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R 092348Z MAY 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7351
INFO AMCONSUL MONTREAL
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E.O. 11652:N/A
TAGS: ECON, ETRD, CA
SUBJECT: GOC REPORTEDLY OFFERING INVESTMENT INCENTIVES
TO AUTO COMPANIES.

1. SUMMARY. ARTICLE IN PRESS INDICATES THAT GOC HAS OFFERED GM AND FORD CDOLS 116 MILLION TO INVEST IN AUTO PARTS MANUFACTURING FACILITIES IN QUEBEC AND ONTARIO RESPECTIVELY. WHILE INDUSTRY, TRADE AND COMMERCE (IT&C) OFFICIALS WOULD NEITHER CONFIRM NOR DENY REPORT, IT IS LIKELY THAT GOC HAS MADE SUCH A PROPOSAL. END SUMMARY.

2. ARTICLE BY KEN ROMAIN IN MAY 9 GLOBE AND MAIL INDICATES THAT GOC HAS OFFERED CDOLS 116 MILLION TO GM AND FORD TO INVEST IN AUTO PARTS MANUFACTURING FACILITIES IN QUEBEC AND ONTARIO RESPECTIVELY.

3. ACCORDING TO ARTICLE, GM HAS BEEN OFFERED CDOLS 86 MILLION TO ESTABLISH AN ALUMINUM DIE CASTING PLANT IN QUEBEC. PROVINCIAL GOVERNMENT REPORTEDLY ASKED TO CONTRIBUTE 25 PERCENT OF TOTAL INCENTIVE PROPOSED. FEDERAL

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FUNDS FOR QUEBEC WOULD COME FROM DEPARTMENT OF REGIONAL ECONOMIC EXPANSION (DREE); QUEBEC GOVERNMENT OFFICIALS HAVE BEEN ACTIVELY WOOING GM TO BUILD THE CASTING PLANT IN QUEBEC FOR THE PAST YEAR. QUEBEC IS REPORTEDLY IN COMPETITION WITH THREE SITES IN THE U.S. FOR THE PLANT. LOCATION OF THE PLANT IN QUEBEC COULD BE EITHER THE MONTREAL OR CHICOUTIMI AREAS, BOTH OF WHICH ARE ELIGIBLE FOR DREE

GRANTS.

4. SECOND GOC PROPOSAL IS FOR CDOLS 30 MILLION TO FORD FOR EXPANSION OF EXISTING ENGINE PLANT OR CONSTRUCTION OF A NEW PLANT IN WINDSOR, ONTARIO. ARTICLE NOTES THAT ONTARIO GOVERNMENT HAS ALSO BEEN ASKED BY GOC TO CONTRIBUTE 25 PERCENT OF TOTAL INCENTIVE COST, BUT THAT PROVINCE HAS REFUSED UP TO NOW TO BECOME INVOLVED IN A "BIDDING WAR". FUNDS WOULD BE PROVIDED OUT OF GENERAL GOC REVENUES SINCE ONLY NORTHERN ONTARIO IS ELIGIBLE FOR DREE GRANTS.

5. COMMENT. IT&C AND DREE OFFICIALS WOULD NEITHER CONFIRM NOR DENY PRESS REPORT. OFFICIALS NOTED THAT UNDER DREE LEGISLATION, PROPOSAL FOR ASSISTANCE WOULD BE INITIATED BY RECIPIENT (GM) RATHER THAN BY GOC, BUT REFUSED TO INDICATE WHETHER GM HAD MADE SUCH A REQUEST. GM OFFICIAL WAS NON-COMMITAL AND TOLD EMBOFF THAT NO DECISIONS ON INCENTIVES HAVE BEEN MADE. POSSIBLE ASSISTANCE TO FORD WOULD HAVE BEEN INITIATED BY GOC.

6. DESPITE OFFICIAL DISCLAIMERS, IT IS LIKELY THAT GOC HAS SUBSTANTIAL INCENTIVE PACKAGE UNDER ACTIVE CONSIDERATION. GOC IS CONCERNED OVER TOTAL AUTO TRADE DEFICIT (CDOLS 1.1 BILLION IN 1977) AND OVER DEFICIT IN PARTS TRADE IN PARTICULAR (CDOLS 3.0 BILLION IN 1977). IT&C FORECASTS THAT IF CANADA MAINTAINS ITS PRESENT SHARE OF NORTH AMERICAN LIMITED OFFICIAL USE

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PRODUCTION, TRADE DEFICIT WITH U.S. COULD RISE TO CDOLS 2.4 BILLION (1977 DOLLARS) BY 1985. HOWEVER, WHILE GOC CONCERN IS PARTLY MOTIVATED BY ECONOMIC CONSIDERATIONS, IT IS PRIMARILY LINKED TO POLITICAL PRESSURES FROM PARTS MANUFACTURERS, POLITICAL OPPOSITION (ESPECIALLY NDP) AND BY ONTARIO'S PROGRESSIVE CONSERVATIVE PROVINCIAL GOVERNMENT. AT FEBRUARY FEDERAL/PROVINCIAL ECONOMIC SUMMIT, ONTARIO PREMIER DAVIS CALLED ON GOC TO TAKE MEASURES GUARANTEEING CANADA A "FAIR SHARE" OF AUTO PRODUCTION AND INVESTMENT. RECENT STUDY BY ONTARIO TREASURY TAKES SOME LINE.

7. THUS, FOR POLITICAL AND ECONOMIC REASONS, GOC SEEKS TO ENSURE THAT CANADA RECEIVES A SUBSTANTIAL SHARE OF THE MASSIVE (DOLS 55-58 BILLION) INVESTMENT SPENDING ON RETOOLING THE MAJORS PLAN TO UNDERTAKE BY 1985. IN GOC VIEW, IF LOCATION OF FUTURE INVESTMENT WERE DETERMINED BY NON-GOVERNMENT MARKET FORCES ALONE, A SIGNIFICANT PROPORTION OF THAT INVESTMENT WOULD FLOW TO CANADA. HOWEVER, GOC FEELS THAT DOMESTIC POLITICAL CONSIDERATIONS (I.E., QUEBEC SEPARATION) AND INCENTIVES OFFERED BY THE U.S. STATE AND FEDERAL GOVERNMENTS HAVE INTRODUCED DISTORTIONS INTO THE MARKET. CONSEQUENTLY, GOC RESPONDED WITH AN EXPANSION OF

THE DUTY REMISSION SCHEME (STATE 113857 AND PREVIOUS) AND IS CONSIDERING THE POSSIBILITY OF ESTABLISHING A FUND TO ENCOURAGE INVESTMENT IN THE PARTS SECTOR.

8. SUBSTANTIAL INDUCEMENTS TO GM AND FORD WOULD BE MOST IMPORTANT CONCRETE STEP TO DATE BY GOC TO REDUCE AUTO TRADE DEFICIT, AND WOULD THUS GO A LONG WAY TOWARD MEETING POLITICAL PRESSURES TO ACT. MOREOVER, SINCE QUEBEC AND ONTARIO WOULD PARTICIPATE FINANCIALLY IN SUCH A SCHEME, GOC COULD CITE IT AS ANOTHER EXAMPLE OF CLOSE FEDERAL/PROVINCIAL COLLABORATION IN ATTACKING CANADA'S ECONOMIC PROBLEMS.

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9. REFUSAL OF GOC TO CONFIRM OR DENY PRESS REPORT PROBABLY REFLECTS FACT THAT PROPOSAL HAS NOT YET REACHED FRUITION - POSSIBLY BECAUSE OF ONTARIO'S CONTINUED RELUCTANCE TO ENGAGE IN "BIDDING WAR" WITH U.S. STATES. GOC WAS APPARENTLY CAUGHT OFF GUARD BY PREMATURE "LEAK" OF PROPOSAL.
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